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E.O. 12958: N/A
TAGS: ECON EFIN EINV ETRD EMIN EPET ENRG BEXP KTDB SENV
PGOV, SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER MAY 23, 2008
ISSUE

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¶1. (U) Summary. This is Volume 8, issue 21 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- Finance Minister Defends Inflation Targeting
- JSE Rebounds
- Crime Leading Factor in Emigration
- Imported Skills 'Add 15% to SA Project Costs'
- SA Household Debt Exceeds R1 trillion
- AGOA Drives Vehicle Exports to the U.S.
- Commuter Rail Investments on the Rise
- DOT Proposes Aviation Accident Investigation Agency
- Regulator Recommends that an Independent Entity Manage Private Power Procurement
- DME Considers Restricting Coal Exports
- Neotel Launches Competitive Packages
- Premier Outlines KwaZulu-Natal Economic Development Plan
- Tourism Suffers from Outbreak of Violence
- PSSA Reviews Medical Waste Disposal
End Summary.

Finance Minister Defends Inflation Targeting

¶2. (U) Finance Minister Trevor Manuel once again joined the Reserve Bank Governor in defense of inflation targeting in his address to the Parliament Finance Committee. Manuel defended inflation targeting as an economic management tool and hinted that the government was still comfortable with a 3-6% target range for the main CPIX gauge. Manuel said "that given the peculiarities of SA, a country with low savings, low reserve as a measure, inflation targeting is without its equal." A shift from current economic policy is doubtful until the change in government next year. (ABSA Morning Brief, May 21, 2008.)

JSE Rebounds

¶3. (U) The Johannesburg Stock Exchange (JSE) leapt to a new record on May 19, buoyed by a surge in global appetite for emerging markets, along with rallying metals prices. The all-share index rose 1.5% to a record of 33,191, in step with the strongest recovery in global equities in four years. "Global markets changed their minds about risk a week ago. Emerging markets and high yields are now the flavor of the day," said Citigroup senior dealer Julian Wilson. "Foreigners are picking up a basket of emerging markets and

the rand is on their list." (Business Day, May 20, 2008).

Crime Leading Factor in Emigration

¶4. (U) Crime was the most frequently cited reason for professionals to leave, according to a survey released by Grant Thornton. More than 80% of those surveyed cited the high crime rate as a consideration for leaving SA permanently. No other factor received as many mentions. The survey was conducted among 300 privately held businesses with 100 to 400 employees. Other factors prompting emigration included uncertainty about the future leadership of SA (15%), better business opportunities elsewhere (14%), race discrimination (13%), education (10%), and health care (10%). In 2008, 72% of the business executives reported that employees or their relatives had been affected by violent crime, down from 84% in the 2007 survey. (Business Day, May 14, 2008)

Imported Skills 'Add 15% to SA Project Costs'

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¶5. (U) Council for the Built Environment CEO Bheki Zulu told a built environment symposium that the recruitment of foreign engineers to implement infrastructure projects is adding as much as 15% to the cost of projects as the global scramble for these skills has seen demand far outstrip supply. "This shortage could certainly slow the roll-out of projects, and is also increasing the cost of that roll-out as many of these skills have to be imported", Zulu said. Zulu said that according to a recent skills audit conducted by the council, there were not enough skills entering the system while a lot of skills were being lost. Murray & Roberts CEO Brian Bruce said because many of these skills have to be brought from outside and because there is high demand for them globally, they come here at a premium. Bruce said experienced people from other countries are also unwilling to come to South Africa because of the negativity the country has been getting, especially as a result of crime and

the recent xenophobic attacks. (Business Day, May 16, 2008)

SA Household Debt Exceeds R1 trillion

¶6. (U) The National Credit Regulator (NCR) reported that credit extension to households increased from R289.8 billion ($38.6 billion) in 2002 to R1.1 trillion ($147.7 billion) this year (do you mean in 2007 or in May 2008?). Mortgages accounted for more than 50% of the debt. Other credit classes, including overdrafts, leases, installment sales and credit cards made up the balance. SA's credit market is estimated at about R2 trillion ($266.7 billion). NCR CEO Gabriel Davel said 300,000 "over-indebted households" were saddled with a R30 billion ($4 billion) debt burden, while 1 million "debt-stressed" South Africans owed more than R50 billion ($6.7 billion). Amounts in arrears continued to swell as interest rates rose. The NCR has registered 360 debt-counselors to help over-indebted South Africans reschedule their debts. To date, NCR had received 12,000 applications for debt counseling involving about R2.5 billion ($0.3 billion). (Business Day, May 22, 2008)

AGOA Drives Vehicle Exports to the U.S.

¶7. (U) International car manufacturers that base operations in SA are benefiting from the U.S. African Growth and Opportunity Act (AGOA), which allows certain categories of exports to enter the U.S. duty-free. Motor vehicle exports from SA to the U.S. surged 226% in the first three months of 2008. Figures show that the U.S. imported $375 million worth of motor vehicles from South Africa between January and March, compared with $115 million in 2007. National Association of Automobile Manufacturers of South Africa Executive Director Nico Vermeulen said BMW SA is a top exporter, including to the U.S. The company has introduced a new C-class model, after phasing out its old C-class model last year. The local operation has ramped up production, exporting 8,000 vehicles worldwide in the first four months (a fivefold increase over 2007). The cars are allowed into the U.S. duty-free under AGOA. Motor vehicles, along

with other automotive manufactures, have made transport equipment the second-largest category of local exports to the U.S., after metals and minerals. In the first three months of 2008, transport exports were worth $423.9 million, up from $169 million last year. This is still a big dip from $664.9 million in 2006. Vermeulen suggested that the decrease came after the closure of BMW's old C-class model and ahead of the introduction of its new model. The balance of trade in this category lies with the U.S., which exported $544 million worth of transport equipment to SA, compared with $344.4 million a year earlier. (Business Report, May 20, 2008)

Commuter Rail Investments on the Rise

¶8. (U) The South African Rail Commuter Corporation (SARRC) is investing about R18 billion ($2.4 billion) in upgrading its rail infrastructure, according to CEO Lucky Montana. "Our intervention Qinvolves a stabilizing phase and, by 2010, we want to restore rail services to their 1992 status and, thereafter, we will build new lines and expand our capacity." SARRC is "currently upgrading 200 coaches and has set aside about R7 billion ($933 million) to intensify maintenance of the 40-year-old fleet to increase its ability to meet safety requirements," he said at the Eastern Cape Rail Conference. Montana noted that the company had increased its passenger volume by 12%, but stated that the cost of R50 million ($6.7 million) per kilometer in rail repairs was proving to be a critical constraint. He pointed out that the current transport system was a product of apartheid when issues of comfort and safety were overlooked. Montana said "over 70% of South Africa's households do not have access to a car and we need to find a solution that is accessible." (Engineering News, May 16, 2008)

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DOT Proposes Aviation Accident Investigation Agency

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¶9. (U) The SA Department of Transport (DOT) released a proposal to create an independent Aviation Accident Investigation Agency. The establishment of the state-funded agency, which would act independently from the SA Civil Aviation Authority, is mooted in the DOT's 2008 Civil Aviation Bill. The bill is currently out for industry comment, after which it will be passed to parliament for enactment. Under current regulation, the Minister of Transport

appoints an ad hoc Accident Inquiry Board to investigate accidents. According to the proposed legislation, the new agency would be composed of a full-time chairman and two part-time members. They would be appointed for a renewable term of three-years by the Minister of Transport following public nominations. The functions of the agency would be to investigate aircraft accidents and incidents; make safety recommendations; submit a final report on its findings to the minister and all stakeholders within three months of the completion of an investigation; and to implement safety recommendations. It would have the power to institute or defend legal actions; reopen investigations; establish an aircraft accident and incident reporting system to detect safety deficiencies; and conduct investigations on behalf of other states. (Travel News Weekly, May 14, 2008)

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Regulator Recommends that an Independent Entity Manage Private Power Procurement

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¶10. (U) The National Energy Regulator of South Africa (NERSA) released a report asserting that state-owned Eskom should not manage and coordinate the procurement of private power generation. Instead it recommended that a "centralized high-level government unit" should coordinate the national electricity emergency program, including the power conservation program. According to NERSA, "this unit should have "authority to take action". Meanwhile, the regulator also said in its report that the SAG needed to develop a national strategy for the acquisition and management of coal to ensure supply security. This came after Eskom found itself in serious trouble in January, when it declared a "force majeure" with its biggest industrial customers, leading to most of the country's underground mines closing for five days. Eskom blamed much of the problem on poor coal supplies, and the heavy rains that had created wet coal, which did not burn well. "National government should

consider formulating a policy that will balance Eskom's commercial decisions and the national security of electricity supply in order to avoid national crises," stated NERSA. "The role of Eskom in government's national electricity emergency program should be clarified considering that Eskom has to focus on, among others, returning the system to normality." NERSA said it believed that the implementation of these recommendations would contribute towards mitigating the electricity supply shortage, as well as reduce the adverse impact thereof. (Engineering News, May 19, 2008)

DME Considers Restricting Coal Exports

¶11. (U) The Department of Minerals and Energy (DME) spokeperson Bheki Khumalo revealed that Minister Buyelwa Sonjica had commissioned a study into the management of local "strategic coal resources". "There is a serious need to take a look at the country's coal policy," Khumalo said, speaking in the light of a new National Energy Regulator of SA (NERSA) report, which highlighted Eskom's problems. One option might be to restrict coal exports
QEskom's problems. One option might be to restrict coal exports
mainly through Richards Bay, Khumalo added. NERSA Head of Electricity Regulation Thembani Bukula said the regulator wanted low-grade coal exports, which were mainly for export to India, to be limited. A Wood Mackenzie analyst said it would not make any difference to Eskom's coal supply position if exports of coal were diverted to the utility. "Stopping coal exports would create havoc in the local coal market, especially among empowerment companies that have just entered the export market." Analysts add that diverting coal from exports would be illegal. An industry source, who wished to remain anonymous, said the SAG could face legal action from the coal mining industry or its export customers if it unilaterally diverted exports. Eskom has missed its own target for increasing coal stocks to a minimum of 20 days of supply by the end of April, raising the risk of power cuts during winter. Bloomberg reported that Eskom's coal stocks were at 16.2 days last week after dropping below 10 days in January. Anglo spokesperson Pranill Ramchander did not expect the government investigation to have any effect on the group's coal exports. "We have export contracts in place that are binding." he said. (Business Day, May 14, 2008.)

Neotel Launches Competitive Packages

¶12. (U) Emerging telecoms provider Neotel unveiled its long-awaited consumer offering. CEO Ajay Pandey revealed that the company hoped to connect between 50,000 and 60,000 customers over the next nine months. Neotel hoped to accelerate its network expansion beyond the current geographic coverage area, which was restricted to parts of Johannesburg and Pretoria. Five "converged" packages, branded NeoConnect, combine voice and data services, and range in price from R299 ($40) a month for the "entry level" product, through to R999 ($133) a month for a high-end solution. The top-end product incorporates 2,000 free network minutes (Neotel-to-Neotel calls), 120 free local and regional calls to Telkom customers, as well as text messaging, high-speed Internet and e-mail. Industry analysts asserted that the Neotel voice and internet offerings could place downward pressure on telecommunication rates. Frost & Sullivan Telecoms Analyst Lindsey McDonald said she was impressed at how well the offering had been "bundled". "Despite the costs still being fairly prohibitive in terms of universal access, I still think the way the offering has been structured is going to place serious pressure on Telkom for the first time," McDonlad added. She attributed this to the market research undertaken ahead of the launch. Pandey insisted that extending coverage was a major priority and that it would soon have a presence in Cape Town, Durban, and Soweto. Bloemfontein, East London, Kimberley, and Port Elizabeth were likely to follow. Neotel would also be able to offer increasingly competitively priced international services once new capacity is obtained from the SEACOM and SAT-3 projects underway, which will increase African IT links to Europe. Neotel planned to spend some R11 billion ($1.5 billion) to upgrade its network

incrementally over the next decade. (Engineering News, May 22, 2008)

Premier Outlines KwaZulu-Natal Economic Development Plan

¶13. (U) KwaZulu-Natal (KZN) Premier Sibusiso Ndebele stated that the province's economic development strategy aimed to transform the structure of the provincial economy, to increase investment, to build skills and capacity, to broaden participation in the economy, and increase competitiveness. The gross domestic product of the KwaZulu-Natal region is now the second-largest in the country, after Gauteng. Ndebele added that the economic development program was vital to a society that was undergoing rapid change and having to adjust to new challenges. "The government needs to create conditions for interdependence and interconnectedness," he stated. Ndebele said that in order to increase the collective impact and synergy of government interventions in pursuit of the reduction of poverty, it was critical to improve the spatial alignment and integration of resource allocation. For example, the provincial spatial economic development strategy (PSEDS) database provided a mechanism to capture and reflect all capital projects spatially over the medium-term expenditure framework period, while the provincial nerve centre was being used to obtain a single view of the province.
Qnerve centre was being used to obtain a single view of the province.
"The PSEDS database and the provincial nerve centre are being used as up-to-date technology systems to assist the provincial government in developmental decisions," Ndebele stated. A KZN growth fund provided medium to long-term funding for sustainable infrastructure and related projects within the province. He noted that the fund's investment committee had approved projects with an estimated value of R414 million ($55 million) spread across sectors such as manufacturing, transportation and logistics, and agricultural processing. Ndebele said the investment was set to yield an estimated 863 new jobs. About 40% of these projects were in outlying areas within the province and, through 12 approved projects, the fund had been able to promote significant black economic participation as a strategic imperative. On the issue of local economic development, Ndebele said that just over R95 million ($13 million) in grants had been committed to 182 projects across the province. In the past eight months, 14 projects had been completed. A further 23 projects, valued at R70 million ($9.3 million), are in the pipeline for European Union funding approval. (Engineering News, May 16, 2008)

Tourism Suffers from Outbreak of Violence

¶14. (U) The outbreak of xenophobic violence in Gauteng is sowing

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panic in the tourism industry - and is being blamed for a large number of delegates from other African countries pulling out of a top business conference in Cape Town at the last minute. The German Foreign Ministry has issued a warning to visitors to avoid central Johannesburg and the outlying townships. It advised against all trips to these areas, whether by tour groups or individuals. These are just some of the immediate knock-on effects of the week of violence that has left 42 people dead, scores injured and thousands of people displaced. In Cape Town, the conference of the Leading Women of Africa Forum got under way this week with only 160 of the 250 invited delegates. According to organizer Madelein Mkunu, the event "lost delegates from countries such as Nigeria, Guinea, Cameroon and Burkina Faso. "They had confirmed they would come to this wonderful business opportunity forum, only to send me e-mails saying that due to xenophobic attacks 'we cannot come'." The Tourism Business Council of SA CEO Mmatsatsi Marobe said the image of the country reflected in the media was having a "detrimental effect" on the tourism industry. "Certain sections of the travel and tourism sector are already fielding panic calls from partners in SA's major tourist source markets - something that could reverse the major gains made at the travel and tourism indaba held in Durban recently," Marobe said. (Engineering News, May 16, 2008 and

Business Day, May 16, 2008)

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